

30658

N
92-2270

9203466

HRT

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

REC'D 6 H.C.

FEB 19 1992

141

(Mark One)

- ☒ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended December 31, 1991, or
- ☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number 0-18644

ROYAL INTERNATIONAL OPTICAL INC.
(Exact Name of Issuer as Specified in its Charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

22-3032948
(IRS Employer
Identification No.)

2760 Irving Boulevard
Dallas, Texas 75207

(Address of principal executive offices, including zip code)

Previous Address

Glen Oaks Industrial Park
P.O. Box 124
Glendora, N.J. 08029

BEST COPY
AVAILABLE

(214) 638-1397
(Registrant's telephone number,
including area code)

PROCESSED BY
165-14 H
FEB 20 1992

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months for for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES ☒ NO ☐

As of February 11, 1992, 5,754,020 shares of the registrant's common stock, \$0.01 par value, were outstanding.

Page 1 of 13

Total of sequentially numbered pages 165

Exhibit Index on sequentially numbered page 14

ROYAL INTERNATIONAL OPTICAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

<u>ASSETS</u>	<u>December 31, 1991</u> (Unaudited)	<u>March 31, 1991</u> (Audited)
Current assets:		
Cash and cash equivalents	\$ 3,409	\$ 2,011
Accounts receivable	5,821	8,757
Inventory	21,176	19,214
Prepaid expenses and other	<u>561</u>	<u>544</u>
Total current assets	30,967	30,526
Property, plant and equipment:		
Land	1,059	1,059
Buildings	5,781	5,725
Leasehold improvements	10,569	10,376
Machinery and equipment	15,067	14,807
Furniture and fixtures	10,424	9,719
Transportation equipment and other	<u>478</u>	<u>430</u>
	43,378	42,116
Less accumulated depreciation	<u>11,944</u>	<u>8,645</u>
Net property, plant and equipment	31,434	33,471
Goodwill, net	51,097	52,128
Deferred financing costs, net	1,963	2,262
Deposits and other assets	<u>267</u>	<u>259</u>
	<u>\$115,728</u>	<u>\$118,646</u>

See accompanying notes.

ROYAL INTERNATIONAL OPTICAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

(In thousands, except per share data)

<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>	<u>December 31, 1991</u> (Unaudited)	<u>March 31, 1991</u> (Audited)
Current liabilities:		
Accounts payable - trade	\$ 12,789	\$ 11,182
Accrued expenses and other	5,264	7,163
Current portion - long-term liabilities	1,350	1,429
Subordinated notes payable	-	3(0)
Total current liabilities	<u>19,403</u>	<u>20,074</u>
Long-term liabilities, less current portion	55,330	76,969
Deferred taxes and other	1,306	1,500
Stockholders' equity:		
Preferred stock, \$.01 par value; 5,000,000 shares authorized; 2,717.5 shares issued and outstanding, \$10,000 per share issuance price	22,375	-
Common stock, \$.01 par value; 20,000,000 shares authorized; 5,754,020 shares issued and outstanding	58	58
Additional paid-in capital	31,496	26,696
Accumulated deficit	<u>(14,240)</u>	<u>(6,651)</u>
Total stockholders' equity	<u>39,689</u>	<u>20,103</u>
	<u>\$15,728</u>	<u>\$18,646</u>

See accompanying notes.

ROYAL INTERNATIONAL OPTICAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)
(Unaudited)

	Nine months ended December 31, 1991	Nine months ended December 31, 1990
Net sales	\$101,309	\$107,889
Cost of sales	<u>29,097</u>	<u>31,211</u>
Gross profit	72,212	76,678
Selling, general, and administrative expense:		
Salaries	28,063	29,689
Rent	15,583	16,639
Advertising	5,595	5,943
Other general and administrative	15,874	16,284
Taxes other than income taxes	4,469	4,457
Depreciation and amortization	<u>4,645</u>	<u>3,736</u>
Total selling, general, and administrative expense	<u>74,229</u>	<u>76,748</u>
Operating (loss)	(2,017)	(70)
Other income (expense):		
Interest and other income	648	1,388
Interest expense	<u>(7,240)</u>	<u>(7,011)</u>
	<u>(6,592)</u>	<u>(5,623)</u>
Loss before income taxes (benefit)	(8,609)	(5,693)
Income taxes (benefit)	<u>(1,020)</u>	<u>(370)</u>
Net loss	<u>\$ (7,589)</u>	<u>\$ (5,323)</u>
Net loss per common share	<u>\$ (1.32)</u>	<u>\$ (.94)</u>
Weighted average common shares outstanding	<u>5,754,020</u>	<u>5,754,020</u>

See accompanying notes.

ROYAL INTERNATIONAL OPTICAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)
(Unaudited)

	Three months ended December 31, 1991	Three months ended December 31, 1990
Net sales	\$ 28,772	\$ 32,117
Cost of sales	<u>8,519</u>	<u>9,981</u>
Gross profit	20,253	22,136
Selling, general, and administrative expense:		
Salaries	8,769	9,874
Rent	4,901	5,354
Advertising	1,457	1,521
Other general and administrative	5,183	4,978
Taxes other than income taxes	1,385	1,450
Depreciation and amortization	<u>1,576</u>	<u>1,278</u>
Total selling, general, and administrative expense	<u>23,271</u>	<u>24,455</u>
Operating (loss)	(3,018)	(2,319)
Other income (expense):		
Interest and other income	164	255
Interest expense	<u>(2,449)</u>	<u>(2,387)</u>
	<u>(2,285)</u>	<u>(2,132)</u>
(Loss) before income taxes (benefit)	(5,303)	(4,451)
Income taxes (benefit)	<u>(500)</u>	<u>(892)</u>
Net (loss)	<u>\$ (4,803)</u>	<u>\$ (3,559)</u>
Net (loss) per common share	<u>\$ (.83)</u>	<u>\$ (.62)</u>
Weighted average common shares outstanding	<u>5,754,020</u>	<u>5,754,020</u>

See accompanying notes.

ROYAL INTERNATIONAL OPTICAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine months ended <u>December 31, 1991</u>	Nine months ended <u>December 31, 1990</u>
Net (loss)	\$ (7,589)	\$ (5,323)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,645	3,736
Imputed interest on acquisition debt	-	1,979
Gain on redemption of 10% redeemable preferred stock	-	(65)
Amortization of deferred gains	-	(75)
Decrease in deferred taxes	(194)	(370)
Changes in assets and liabilities:		
Accounts receivable	2,936	2,566
Inventory	(1,962)	(1,143)
Prepaid expenses and other	(17)	(34)
Deposits and other	(8)	(339)
Accounts payable - trade	1,607	3,482
Accrued expenses and other	<u>967</u>	<u>(1,201)</u>
Net cash provided by operating activities	385	3,213
Cash flows from investing activities:		
Payment associated with acquisition of Royal International Optical Corp., net of cash acquired	-	(61,428)
Payment of deferred financing costs	(18)	(3,625)
Additions to property, plant and equipment, net	<u>(1,239)</u>	<u>(1,589)</u>
Net cash used in investing activities	(1,257)	(66,642)
Cash flows from financing activities:		
Cash received from borrowings:		
Subordinated debt	-	15,000
Long-term liabilities	(270)	55,000
Draw on line of credit	4,500	2,300
Repayments of long-term debt	(2,182)	(7,350)
Dividends paid	-	(98)
Redemption of 10% redeemable preferred stock	-	(235)
Other	<u>222</u>	<u>-</u>
Net cash provided by financing activities	2,270	64,617
Net increase in cash	1,398	1,188
Cash, beginning of period	2,011	789
Cash, end of period	<u>\$ 3,409</u>	<u>\$ 1,977</u>

See accompanying notes.

ROYAL INTERNATIONAL OPTICAL INC. AND SUBSIDIARIES

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended December 31, 1991, and 1990

(Unaudited)

1. Interim consolidated financial statements

In the opinion of management, the accompanying consolidated financial statements for the nine months ended December 31, 1991, and 1990 reflect all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial condition, results of operations, and cash flows of Royal International Optical Inc. and Subsidiaries (the "Company") and include the accounts of the Company and all of its wholly owned subsidiaries. All material intercompany transactions and balances are eliminated.

Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been omitted. The unaudited consolidated financial statements referred to above should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended March 31, 1991. Certain reclassifications have been made to prior period amounts to conform to 1991 presentation. Results of operations for the periods ended December 31, 1991, and 1990 are not necessarily indicative of the results for the year.

2. Restructure and Recapitalization of the Company

Effective December 31, 1991, the Company and Westinghouse Credit Corporation ("Westinghouse"), its principal lender, executed "Amendment No. 2 to Loan and Security Agreement" which restructured the existing loan agreements and recapitalized the Company as follows:

- (a) Senior Secured Term Loan - was reduced from \$55,000,000 to \$45,000,000 in exchange for \$10,000,000 face value in preferred stock. Interest on this obligation for the quarter ended December 31, 1991, in the amount of \$1,650,000, originally due on January 1, 1992, was exchanged for an equal face value amount of preferred stock. The loan's maturity date was extended to December 31, 1999, with equal quarterly installments of principal and interest of \$2,517,223 required commencing on September 30, 1993.
- (b) Senior Subordinated Term Loan - in the amount of \$15,000,000 was prepaid and cancelled in exchange for preferred stock of equal face value amount. Interest on this obligation for the quarter ended December 31, 1991, in the amount of \$525,000, originally due on January 1, 1992, was paid with an equal face value amount of preferred stock.

- (c) Revolving Line of Credit - availability under the Revolver was increased by \$3,000,000 from \$8,500,000 to \$11,500,000.
- (d) Common Stock Warrants - Westinghouse already holds a common stock warrant entitling it to purchase 1,438,505 shares of common stock of the Company, equaling 25% of the outstanding shares on a fully diluted basis, at \$1.00 per share. These shares have already been issued and are held in trust on behalf of Westinghouse. In conjunction with this transaction, the exercise price of this warrant was reduced to \$0.10 per share.

The Company also issued a new common stock warrant to Westinghouse giving it the right to purchase an additional 1,438,505 newly issued shares, or 15% of the outstanding shares of the Company on a fully diluted basis, at \$0.10 per share.

In the event the Company goes private, Westinghouse has the option to put the stock purchase warrants to the Company upon the occurrence of certain events.

Should the Company elect to redeem all or part of the newly issued preferred stock described below before March 31, 1996, in general, all or a portion of the new warrant to buy 15% of the common shares will be canceled, based upon the amount of the preferred stock redeemed.

- (e) Preferred Stock - the Company issued cumulative nonconvertible preferred stock with a face value of \$27,175,000 in exchange for the above described debt. The preferred stock requires quarterly dividend payments at rates that range from 7.2% to 9.5% through March 31, 1997. In certain circumstances, the preferred stock purchase agreement gives Westinghouse the right to 51% of the voting rights on any matter placed before the Company's shareholders. If the Company, at its sole option, elects to redeem the preferred stock, the redemption price will be based upon a redemption schedule which would require a payment of between 107.2% and 141.5% of the face value of the preferred stock depending upon the year in which it is redeemed. The Company has the right to redeem the preferred stock with cash or with promissory notes bearing 12% interest and due on December 31, 2002.

The preferred stock and warrants are recorded in these financial statements at their market value which is \$22,375,000 for the preferred stock and \$4,800,000 for the warrants. No gain or loss was recorded on the transaction.

ROYAL INTERNATIONAL OPTICAL INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Current economic conditions are believed by management to have caused substantial declines in comparable store sales industry wide. In response to this, the Company has used more aggressive sale promotions which have not yet sufficiently increased sales. Specific comments are as follows:

Results of Operations

The following table sets forth certain information regarding items in the Company's consolidated statements of operations for the periods indicated.

	Three Months ended		Nine Months Ended	
	December 31,		December 31,	
	1991	1990	1991	1990
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	<u>29.6</u>	<u>31.1</u>	<u>28.7</u>	<u>28.9</u>
Gross profit	70.4	68.9	71.3	71.1
Selling, general, and administrative expenses	<u>80.9</u>	<u>76.1</u>	<u>73.3</u>	<u>71.1</u>
Operating (loss)	(10.5)	(7.2)	(2.0)	--
Interest expense, net of interest and other income	<u>(7.9)</u>	<u>(6.7)</u>	<u>(6.5)</u>	<u>(5.2)</u>
(Loss) before income taxes	(18.4)	(13.9)	(8.5)	(5.3)
(benefit)	(18.4)	(13.9)	(8.5)	(5.3)
Income taxes (benefit)	-	<u>(2.8)</u>	<u>(0.5)</u>	<u>(0.3)</u>
Net (loss)	<u>(18.4)%</u>	<u>(11.1)%</u>	<u>(8.0)%</u>	<u>(5.0)%</u>

Quarter Ended December 31, 1991, compared to Quarter Ended December 31, 1990

Net sales for the quarter ended December 31, 1991, were \$28.8 million compared to \$32.1 million for the quarter ended December 31, 1990. The decrease was attributable principally to a decline in comparable store sales and a net decrease in the number of stores open during the period due to the closure of nonperforming locations. This quarter is traditionally the seasonal low point of the year due to the holiday season and consequently is a quarter in which the Company normally has a loss. Sales during the quarter ended December 31, 1991, were further depressed by adverse economic conditions.

Cost of sales decreased as a percentage of net sales from 31.1% during the quarter ended December 31, 1990, to 29.6% for the quarter ended December 31, 1991. The 1.5% decrease was due principally to reduction of manufacturing salaries, to better integration into the retail stores of the product produced by the Company's frame manufacturing subsidiary, and to utilization of sale events with higher margins during a period that the Company expects sales to be seasonally at their lowest point of the year.

Selling, general, and administrative expenses increased as a percentage of net sales from 76.1% during the quarter ended December 31, 1990, to 80.9% during the same period of 1991. The 4.8% increase was principally due to the decrease in sales. Total costs in this category, excluding depreciation and amortization, decreased by approximately \$1,482,000 between the third quarter of 1991 and the third quarter of 1990. However, sales declined by approximately \$3.3 million during this same period, causing the increase in this cost as a percentage of sales.

In summary, despite the fact that the Company experienced a decline in sales of \$3.3 million during the third quarter due to current economic conditions, operating cash flow was only \$401,000 lower than the third quarter in 1990 due to efficient completion of the merger and cost controls put in place.

Interest expense, net of interest and other income, increased by approximately \$153,000 during the quarter ended December 31, 1991, compared to the same period of 1990 due principally to increased interest expense associated with additional borrowings on the line of credit.

Nine Months Ended December 31, 1991, Compared to Nine Months Ended December 31, 1990

Net sales for the nine months ended December 31, 1991, were \$101.3 million compared to \$107.9 million for the nine months ended December 31, 1990. The decrease was attributable principally to a decline in comparable store sales and a net decrease in the number of stores open during the period due to the closure of nonperforming locations.

Cost of sales decreased as a percentage of net sales from 28.9% during the first nine months of 1990 to 28.7% during the first nine months of 1991. The 0.2% decrease was attributable principally to reduction of manufacturing salaries, to better integration into the retail stores of the product produced by the Company's frame manufacturing subsidiary, and to utilization of sale events with higher margins during a period that the Company expects sales to be seasonally at their lowest point of the year.

Selling, general, and administrative expenses increased as a percentage of net sales from 71.1% during the nine months ended December 31, 1990, to 73.3% during the same period of 1991. The 2.2% increase was principally due to the decrease in sales. Total costs in this category, excluding depreciation and amortization, decreased by approximately \$3.4 million between the nine month period of 1991 and the same period of 1990. However, sales declined by approximately \$6.6 million during this same period, causing the increase in this cost as a percentage of sales.

In summary, despite the fact that the Company experienced a decline in sales of \$6.6 million during the nine months ended December 31, 1991, due to current economic conditions, operating cash flow

was only \$1.0 million lower than the same period in 1990 due to efficient completion of the merger and cost controls put in place.

Interest expense, net of interest and other income, increased by approximately \$969,000 during the first nine months of 1991 compared to the first nine months of 1990 due to a decrease of interest income as well as increased interest expense associated with additional borrowings on the line of credit.

Liquidity and Capital Resources

The Company had total cash balances of approximately \$3.4 million at December 31, 1991. The current ratio was 1.60 to 1 at December 31, 1991, compared to 1.52 to 1 at March 31, 1991. Working capital increased from approximately \$10.4 million at March 31, 1991, to \$11.6 million at December 31, 1991. The Company has an \$11.5 million line of credit of which \$3.0 million was available at December 31, 1991.

On February 14, 1992, effective as of December 31, 1991, the Company completed a recapitalization with its senior lender, which involved the conversion of \$27,175,000 of debt into preferred stock, increased the availability under working capital lines, and provided an additional warrants to the lender. See footnote 2 to these financial statements for additional information concerning the recapitalization.

The Company believes that it has adequate financial resources to meet its capital requirements for normal operations for the next twelve months.

ROYAL INTERNATIONAL OPTICAL INC.

PART II

OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

3.1 Statement Affecting Shares.

4.2 Stock Purchase Warrants, dated February 14, 1992, by and among the Borrowers and Westinghouse.

4.3 Specimen Preferred Stock Certificate of the Company.

4.4 Preferred Stock Purchase Agreement, dated as of February 14, 1992, among the Borrowers and Westinghouse.

4.5 Amended and Restated Stock Registration Rights Agreement, dated as of February 14, 1992, among the Borrowers and Westinghouse.

4.6 Preferred Stock Registration Rights Agreement, dated as of February 14, 1992, among the Borrowers and Westinghouse.

10.1 Amendment No. 2 to Loan and Security Agreement, dated as of February 14, 1992, among the Borrowers and Westinghouse.

10.3 Second Amended and Restated Revolving Note, dated December 31, 1991, among the Borrowers and Westinghouse.

10.4 Second Amended and Restated Senior Term Note, dated December 31, 1991, among the Borrowers and Westinghouse.

(b) Reports on Form 8-K

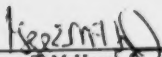
The Company filed no reports on Form 8-K during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on behalf of the undersigned thereunto duly authorized.

ROYAL INTERNATIONAL OPTICAL INC.

By:


George D. McHenry, Jr.
Treasurer (Authorized Officer and Principal
Financial Officer)

Dated: February 17, 1992.